MULTIMEDIA UNIVERSITY

STUDENT ID NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 2, 2018/2019

PEM0034 – ESSENTIALS OF MACROECONOMICS

(All sections / Groups)

15 MARCH 2019
9.00 a.m – 11.00 a.m
(2 Hours)

INSTRUCTIONS TO STUDENTS

1. This question paper consists of **SEVEN (7)** pages, including cover page, with **TWO** sections only.
   Section A – Twenty (25) Multiple Choice Questions
   Section B – Three (3) Short Structured Questions

2. Attempt **ALL** questions in both **Sections A** and **B**. The distribution of the marks for each question is given.

3. Answer **Section A** in the MCQ answer sheet provided and **Section B** in the answer booklet provided.

SECTION A (25 marks)

Instruction: Answer all of the questions in the multiple-choice answer sheet.

1. When the consumer price index (CPI) rises, the typical family
   A. has to spend more ringgit to maintain the same standard of living.
   B. can spend fewer ringgit to maintain the same standard of living.
   C. finds that its standard of living is not affected.
   D. can offset the effects of rising prices by saving more.

2. The consumer price index is used to
   A. track changes in the level of wholesale prices in the economy.
   B. monitor changes in the cost of living.
   C. monitor changes in the level of real GDP.
   D. track changes in the stock market.

3. Economists use the term inflation to describe a situation in which
   A. some prices are rising faster than others.
   B. the economy's overall price level is rising.
   C. the economy's overall price level is high, but not necessarily rising.
   D. the economy's overall output of goods and services is rising faster than the economy's overall price level.

4. Refer to **Table 1** below:

Table 1

Year	Price of rice	Price of noodle
2015	RM20	RM12
2016	RM25	RM18

Suppose a basket of goods in the CPI consisted of 3 units of rice and 4 units of noodle. What is the consumer price index for 2016 if the base year is 2015?
   A. 73.47
   B. 109.22
   C. 136.11
   D. 150.00

5. Refer to **Table 1**. Suppose a basket of goods in the CPI consisted of 3 units of rice and 4 units of noodle. What is the inflation rate for 2016 if the base year is 2015?
   A. 21.33 percent
   B. 25.00 percent
   C. 28.89 percent
   D. 36.11 percent

Continued...

6. Which of the following is **NOT** a tool of monetary policy?
   A. open market operations
   B. reserve requirements
   C. changing the discount rate
   D. increasing the deficit

7. The Central Bank increased the interest rate to
   A. fight against inflation.
   B. reduce unemployment.
   C. promote economic growth.
   D. address the dropping of potential GDP.

8. Cyclical unemployment is closely associated with
   A. long-term economic growth.
   B. short-run ups and downs of the economy.
   C. fluctuations in the natural rate of unemployment.
   D. changes in the minimum wage.

9. The labour force equals the
   A. number of people who are employed.
   B. number of people who are unemployed.
   C. number of people employed plus the number of people unemployed.
   D. adult population.

10. Afiq is working part-time and Dashman is on temporary laid off. Who is counted as employed?
   A. only Afiq
   B. only Dashman
   C. both Afiq and Dashman
   D. neither Afiq nor Dashman

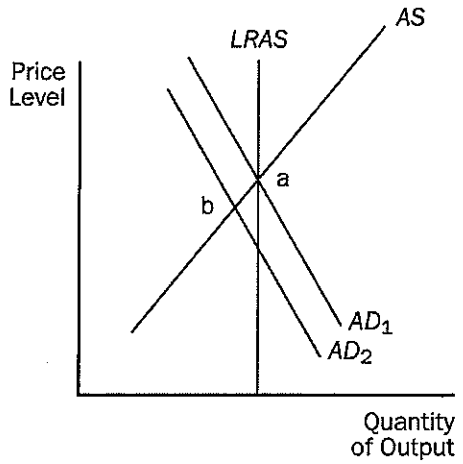
11. Sam just lost his job but isn't yet looking for a new one. Sam is
   A. counted as unemployed and part of the labour force.
   B. counted as unemployed, but not part of the labour force.
   C. not counted as unemployed, but counted as part of the labour force.
   D. not counted as unemployed or as part of the labour force.

12. Unemployment that results because it takes time for workers to search for the jobs that best suit their tastes and skills is called
   A. the natural rate of unemployment.
   B. cyclical unemployment.
   C. structural unemployment.
   D. frictional unemployment.

Continued...

13. Refer to **Figure 1** below:

Figure 1



If the economy is at point b, a policy to restore full employment would be
A. an increase in the money supply.
B. a decrease in government purchases.
C. an increase in taxes.
D. all of the above are correct.

14. Refer to **Figure** 1, which of the following is correct?
A. A wave of optimism could move the economy from a to b.
B. If aggregate demand moves from AD_1 to AD_2 the economy will stay at b in both the short and long run.
C. It is possible that either fiscal or monetary policy might have caused the shift from AD_1 to AD_2.
D. All of the above are correct.

15. Bob traps lobsters in the U.S. and sells them to a restaurant in Egypt. Other things the same, these sales
A. increase U.S. net exports and has no effect on Egyptian net exports.
B. increase U.S. net exports and decrease Egyptian net exports.
C. decrease U.S. net exports and have no effect on Egyptian net exports.
D. decrease U.S. net exports and increase Egyptian net exports.

16. A tax imposed by a government on imports of a good into its country is called
A. an import fine.
B. an import quota.
C. a tariff.
D. an import levy.

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17. Absolute advantage is
    A. the ability to produce more of a good or service than competitors when using the same amount of resources.
    B. the ability to produce higher quality goods compared to one's competitors.
    C. the ability to produce a good or service at a higher opportunity cost than one's competitors.
    D. the ability to produce more of a good or service than competitors who have more resources.

18. Assume that Bulgaria has a comparative advantage in producing sandals and Finland imports sandals from Bulgaria. We can conclude that
    A. Bulgaria also has an absolute advantage in producing sandals relative to Finland.
    B. Bulgaria has a lower opportunity cost of producing sandals relative to Finland.
    C. Finland has an absolute disadvantage in producing sandals relative to Bulgaria.
    D. labour costs are higher for sandal producers in Finland than in Bulgaria.

19. Refer to **Table 2** below:

Table 2

Country	Production without specialisation		Production with specialisation	
	Clocks	**Hats**	**Clocks**	**Hats**
Denmark	900	150	1200	0
Belize	150	100	0	400

Which country has a comparative advantage in producing clocks?
    A. Denmark
    B. Belize
    C. Both countries
    D. Neither country

20. Refer to **Table 2**. Using the same amount of resources, which country has an absolute advantage in producing hats?
    A. Denmark
    B. Belize
    C. Both countries
    D. Neither country

21. One year a country has negative net exports. The next year it still has negative net exports and imports have risen more than exports,
    A. its trade surplus fell.
    B. its trade surplus rose.
    C. its trade deficit fell.
    D. its trade deficit rose.

Continued...

22. When Microsoft establishes a distribution centre in France, U.S. net capital outflow
    A. increases because Microsoft makes an investment in the U.S.
    B. decreases because Microsoft makes an investment in the U.S.
    C. increases because Microsoft makes an investment in France.
    D. decreases because Microsoft makes an investment in France.

23. If the exchange rate is 125 yen = $1, a bottle of rice wine that costs 2,500 yen costs
    A. $20.
    B. $25.
    C. $22.
    D. None of the above is correct.

24. Other things the same, if the exchange rate changes from 115 yen per dollar to 125 yen per dollar, the dollar has
    A. appreciated and so buys more Japanese goods.
    B. appreciated and so buys fewer Japanese goods.
    C. depreciated and so buys more Japanese goods.
    D. depreciated and so buys fewer Japanese goods.

25. In the United States, a cup of hot chocolate costs $5. In Australia, the same hot chocolate costs $6.5 Australian dollars. If the exchange rate is $1.3 Australian dollars per U.S. dollar, what is the real exchange rate?
    A. 1/2 cup of Australian hot chocolate per cup of U.S. hot chocolate
    B. 1 cup of Australian hot chocolate per cup of U.S. hot chocolate
    C. 2 cups of Australian hot chocolate per cup of U.S. hot chocolate
    D. None of the above is correct

Section B (75 marks)

Instruction: Answer all of the questions in the answer booklet.

Question 1

(a) Explain and include formula for labour force participation rate and unemployment rate. (8 marks)

(b) Distinguish between appreciation and depreciation of a currency with examples. (8 marks)

(c) Explain and include formula for the inflation rate. (4 marks)

(d) Explain **ONE (1)** type of unemployment with an example. (5 marks)

[Total: 25 marks]

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Question 2

(a) With the aid of aggregate demand and aggregate supply (AD-AS) diagram, explain how fiscal policy can be used to fight against inflation. (10 marks)

(b) With the aid of aggregate demand and aggregate supply (AD-AS) diagram, explain how monetary policy can be used to reduce the unemployment rate. (10 marks)

(c) Explain a tool in monetary policy that a central bank can use to adjust money supply in the market. (5 marks)

[Total: 25 marks]

Question 3

(a) The U.S. Federal Reserve has raised interest rate again (BBC, 2018).
Explain how the above event will affect the exchange rate between Malaysia Ringgit (MYR) and U.S. dollar (USD) with the aid of an appropriate diagram. (10 marks)

(b) **Table 3** below shows the two nations' maximum production of two products.

Table 3

Nation	Product X	Product Y
A	15	25
B	12	16

Explain which country is having an absolute advantage and/or comparative advantage on product X and/or product Y. (10 marks)

(c) Malaysia's export rose to a record high of RM96.4 billion in October 2018 (Star, 2018).
Explain how the event above affects Malaysia's current account balance. (5 marks)

[Total: 25 marks]

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